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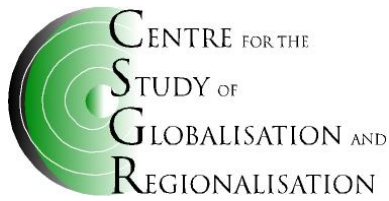
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# **From Doha to El Dorado? The WTO, Agricultural Liberalisation and the False Promise of Free Markets**

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## **Abstract**

The trade talks at the Doha Round of the World Trade Organisation have stuttered along since 2001 with seemingly little prospect for conclusion. Nevertheless, the conviction remains that the round *should* be finished lest significant economic gains be passed over and the long run trading interests of developing countries damaged. In this reading, it is insufficient political will among world leaders that has prevented poor countries from moving towards a fair and free trading environment. By bringing to light the manifest uncertainties that hang over such attempts to instil free market principles on the agricultural economy however, this paper sounds three sceptical notes on the idea that progressive liberalisation through the WTO can deliver a development boon. First, choosing the right path to liberalisation is confounded by the fact that negotiators are unsure of the value of certain concessions and so may deviate down a 'sub-optimal' route. Second, the belief that the 'uneven playing field' will be ultimately levelled as trade-distorting policies are gradually eroded ignores the persistent renewal of government involvement in agriculture as policy instruments evolve over time. Third, to the extent that liberalisation does occur, its benefits are assumed rather than given. By looking at Brazil, a country expected to be one of the prime beneficiaries of a successful roll-back in agricultural protectionism, it is shown how trade expansion has led to an unequal form of development that has stymied economic opportunities for the poor. Because of these three factors, it is concluded that development through liberalisation remains more an act of ideological faith than a question of willpower. As such, the purpose of the multilateral trading system must be reappraised.

## **Keywords**

World Trade Organisation; agriculture; market access; development; sugar

## 1. Introduction

Efforts must be undertaken to ensure that Doha doesn't fail. Brazil, India and other large developing countries are in the driver's seat, but they are on the verge of overplaying their hand. They, and the other developing countries, would be hurt more from a Doha collapse than would the rich countries... The best hope for Doha is an agreement that compels the rich countries to eliminate distorting farm programs and to eliminate or substantially reduce tariffs on products important to the developing countries... Negotiators should be sure, then, to understand that 'Doha Lite' is far preferable to Doha failure – Daniel Ikenson, Trade Policy Analyst, Cato Institute.<sup>1</sup>

Agriculture has been pinpointed by many studies as a sector in which an ambitious World Trade Organisation (WTO) agreement could secure significant gains for poorer countries.<sup>2</sup> Moreover, by confidently setting down the path of liberalisation, such ambition has been seen as a vital step toward rules-based global governance and an ultimate levelling of the playing field – the development El Dorado to which the title refers.<sup>3</sup> With the rise of the G20 coalition of developing countries and the moral authority accorded to them under the latest Doha Round of negotiations, this outcome seemed increasingly possible. It was hoped that the majority of the WTO member states would band together behind the G20 and push through a deal that able to take a substantial bite out of developed country support whilst still providing necessary safeguards to their 'inefficient' peasant sectors.<sup>4</sup> Multilateralism would be given a boost and global free trade would be back on the agenda.

This paper argues against such a messianic vision. Drawing on interviews with delegates at the WTO in Geneva and a critical case study for the free trade project, it seeks to dismantle some of the assumptions related to 'progressive liberalisation' and the idea that multilateral agreements can create the conditions necessary for the poor to be able to trade their way out of poverty. In doing so it complements other strands of academic work also striking a sceptical note on the promise of free trade. One strand refers to the historical accounts offered by Rorden Wilkinson and Tony Payne, which argue that as any movement in

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<sup>1</sup> Daniel Ikenson, 'The WTO After Hong Kong: Where Do We Go from Here?', Speech at Friedrich Naumann Foundation, 14 February 2006. Available at <http://www.freetrade.org/node/710>. Accessed 10 November 2009.

<sup>2</sup> See Patrick Messerlin, 'Agricultural Liberalization in the Doha Round', *Global Economy Journal*, Vol. 5, No. 4, 2005; Will Martin and Kym Anderson, 'The Doha Agenda Negotiations on Agriculture: What Could They Deliver?', *American Journal of Agricultural Economics*, Vol. 88, No. 5, 2006, pp. 1211-1218; Martina Brockmeier and Janine Pelikan, 'Agricultural Market Access: A Moving Target in the WTO Negotiations?', *Food Policy*, Vol. 33, No. 3, 2008, pp. 250-259.

<sup>3</sup> Angel Gurría, Secretary General of the OECD, 'Trade Agreement Needed Now', *New York Times*, 25 April 2008.

<sup>4</sup> The G20 actually contains 23 members and takes its name from the date of its establishment: 20 August 2003. Argentina, Bolivia, Brazil, Chile, China, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela and Zimbabwe.

agriculture is institutionally tied to the expansion of the trade agenda in areas such as services, with the gains in the former outweighed by losses in the latter, prospects for an easy win are dimmed.<sup>5</sup> A second strand relates to the methodological critique offered by Frank Ackerman and Kevin Gallagher of the inflated welfare gains predicted by economists using general equilibrium models, which provide a misleading imperative animating trade politics.<sup>6</sup> Taken together, these suggest that the purpose of the WTO needs to be fundamentally re-thought, not simply because the Doha Round (or further, as Daniel Drache and Marc Froese have argued, the organisation itself)<sup>7</sup> have appeared to run out of steam, but because the benefits of multilateral liberalisation are not big enough, not certain enough, and not targeted enough to make significant difference to the world's poor.

In reaching this conclusion, this paper proceeds as follows. It begins by charting the role of agriculture as a 'bête noir' of the multilateral trade process and how the G20 emerged as a negotiating coalition capable of driving through 'progressive liberalisation' in this sector (Section 2). It then argues why we should cast doubt on the ability of developing countries to obtain a 'pro-development' deal in the Doha Round, not just because of splits between developing countries themselves or concessions they will have to make in other sectors, but because effectively levelling the playing field through multilateral negotiations is essentially implausible (Section 3). Even given some reduction in developed country protection, there is good reason to suggest that the market opportunities afforded by this will not benefit the employment prospects and livelihood security of the poor in developing countries. Taking the example of expanding sugar exports from Brazil, it is illustrated how the dynamic economic benefits of growth are captured by the already advantaged in society (Section 4). Reflection on this broken chain of causality suggests that reconsideration of the WTO-project is paramount (Section 5).

## **2. The Progressive Liberalisation of Agriculture: Holding Out for El Dorado**

The Uruguay Round (1986-1994) of what was then the General Agreement on Trade and Tariffs (GATT) first brought agriculture into the purview of the multilateral trading system and oversaw the inauguration of the WTO, the GATT's legalistic and supranational successor. In its wake ministerial meetings were held in Geneva in 1998 and Seattle in 1999 aimed at

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<sup>5</sup> Anthony Payne, *The Global Politics of Unequal Development* (Basingstoke: Palgrave Macmillan, 2005); Rorden Wilkinson, *The WTO: Crisis and the Governance of Global Trade* (London: Routledge, 2006).

<sup>6</sup> Frank Ackerman and Kevin P. Gallagher, 'The Shrinking Gains from Global Trade Liberalization in Computable General Equilibrium Models', *International Journal of Political Economy*, Vol. 37, No. 2, 2008, pp. 50-77.

<sup>7</sup> Daniel Drache and Marc D. Froese, 'Omens and Threats in the Doha Round: The Decline of Multilateralism?', Institute on Globalization and the Human Condition Working Paper Series, 08/01, 2008.

gearing up governments for another round of multilateral liberalisation. Yet unable to garner the requisite political capital, and, marred by mass demonstrations outside the events, member states forestalled, reflected and then turned toward the Doha ministerial in 2001 to set the WTO process back on track. As a reflection of these previous ministerials, the Doha mandate was framed as a 'Development Agenda' and a new round formally launched. This was an attempt to overcome the reluctance of developing countries to ascent to further negotiations at a time when they were still unconvinced of the benefits of the Uruguay Round's 'Grand Bargain'; a deal in which they should have witnessed withdrawal of egregious developed country supports in exchange for their concessions on manufacturing tariffs. This agenda thus contained commitments, first, to resolve the issue of implementation and, second, to make further reductions in agricultural support, reductions in tariffs affecting the interests of developing countries, greater flexibilities in trade-related intellectual property, and a strengthening of special and differential treatment integral to any final agreement.

Where Doha set the agenda, the 2003 Cancún ministerial was to increase appetite for a conclusion. Unable to hammer out what the various 'commitments' would actually mean in practice, though, Cancún became the second WTO ministerial to collapse in four years. Angered by what they perceived to be procedural flaws and strong-arm tactics by developed countries, developing countries rallied together as the meeting crystallised into a North-South debate. The breaking point was the attempted inclusion of three of the Singapore issues into the Doha Development Agenda – competition, investment and public procurement – at which the developing countries baulked, feeling that they had no place in the negotiations. Yet this was only the culmination of dissent. As Amrita Narlikar and Diane Tussie have argued, 'irrespective of the machinations on the final day...agriculture had in fact been the *bête noir* through most of the conference as well as in the run-up to it.'<sup>8</sup> Until developing countries could be confident that the US and EU would not ride roughshod over their specific demands in agriculture, a deal was never going to be on the cards.

Picking up the pieces of Cancún in the July 2004 Package, WTO members brought a technical fix to a political problem, defining the modalities to be negotiated in agriculture, non-agricultural market access (NAMA) and services, and leaving the scope of the cuts for another day. This continued into the 2005 Hong Kong ministerial, as ambitions lowered among member states and a mutual expectation arose that they would pick the low-hanging fruit in order to stave off another collapsed round. An end to export subsidies, an Aid for

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<sup>8</sup> Amrita Narlikar and Diane Tussie, 'The G20 and the Cancún Ministerial: Developing Countries and their Evolving Coalitions in the WTO', *The World Economy*, Vol. 27, No. 7, 2004, p. 953.

Trade package, and a commitment toward 97 per cent duty-free, quota-free access for LDCs were all confirmed, while the tougher modalities were set aside for their respective negotiations committees, to be ground out in Geneva over the remainder of the ever-lengthening Doha Round.

These negotiations within the various WTO committees were of a highly technical nature, by now an intrinsic feature of multilateral trade bargaining. In turn, this increased the demands on the delegations of developing countries to make sense of the complex legislation under proposal. At the same time, the diplomatic weight accorded to different negotiating stances, long conditioned by the market size and policy outlook of the countries in question, was transforming in line with rise of BRIC and their increasingly important 'emerging' economies.<sup>9</sup> It was in these respects that the creation of the G20 coalition of developing countries led by Brazil and India in Cancún was considered so significant, leading commentators such as Fred Bergsten to suggest that the group would have the power to shift negotiations in favour of those traditionally marginalised by the GATT/WTO process.<sup>10</sup>

The novelty of the G20 was largely attributed to their outlook as a coalition. In contrast to previous groups that coalesced around broad collective positions or rose only temporarily in response to specific threats, the group became what Narlikar called a 'smart coalition', inheriting characteristics of each.<sup>11</sup> In appealing to the shared weaknesses of developing countries, whilst proposing workable solutions in negotiations, the group appeared to successfully bridge the discipline and flexibility required of a credible bargaining identity. As a result, it pulled attention away from the Cairns Group of agricultural exporters as the pre-eminent site of resistance to the protectionist machinations of the Quad (Canada, the EU, Japan and the US).

Given the stakes set out at the initial Doha ministerial, for a meaningful Doha Round to be concluded it became widely acknowledged that agreement on the triangle of issues – market access and domestic support in agriculture and market access in NAMA – was vital.<sup>12</sup> Negotiations over market access have attracted particular attention from proponents of liberalisation as import tariffs have been pinpointed as the most trade distorting type of

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<sup>9</sup> Andrew F. Cooper, Agata Antkiewicz and Timothy M. Shaw, 'Economic Size Trumps All Else? Lessons from BRICSAM', Centre for International Governance Innovation Working Paper, No. 12, 2006.

<sup>10</sup> C. Fred Bergsten, 'The G-20 and the World Economy', Speech given at Leipzig, Germany, 4 March 2004.

<sup>11</sup> Amrita Narlikar, *International Trade and Developing Countries: Bargaining Coalitions in the GATT and WTO* (London: Routledge, 2003), esp. Chapter 6.

<sup>12</sup> Pascal Lamy, 'The WTO and the Doha Round: The Way Forward', Speech given to Indian Council for Research on International Economic Relations, New Delhi, 6 April 2006.

support – over ten times more distorting than domestic payments, according to Anderson *et al.*<sup>13</sup> In addition, it has been argued that it is the use of Tariff Rate Quotas (TRQs) and safeguards on agricultural commodities, rather than tariff escalation as often cited, that has prevented upgrading on products such as chocolate. This is not to say that other reforms are not important for poor countries. For instance, Michael Friis Jensen and Peter Gibbon make the argument that for African states, liberal rules of origin on preferential imports by OECD countries are the most efficacious form of liberalisation.<sup>14</sup> However, since this paper is concerned with the biggest contributors to overall welfare gains, we shall focus on the market access aspect of the Doha negotiations for the remainder of the section.

After the Uruguay Round and across the commodity spectrum as a whole, the base rates in market access resulting from tariffication remained relatively high. In the OECD they ranged from 80 per cent to 404 per cent *ad valorem* equivalent.<sup>15</sup> Countries were able to prevent erosion of these high tariffs by taking advantage of the ‘average’ stipulation of the required 36 per cent tariff cut, applying the minimum allowable cut of 15 per cent to sensitive industries and making larger cuts in other industries to pull up the average. To address this asymmetry, the G20 has pushed during Doha for a 54 per cent average reduction in tariffs for developed countries and 36 per cent for developing countries to make sure that it became harder to hide shallow cuts within the average.<sup>16</sup> Emphasising the importance of these proposals, Agricultural Negotiations Chair Crawford Falconer later asserted, to the disapproval of the Quad, that the ‘real zone of engagement would have to be around the G-20’.<sup>17</sup> The February 2008 modalities text reflected this position, eschewing the deeper, universal cuts promoted by the US and the Cairns Group, as well as the shallow average cut proposed by the G10 group of importers, to propose a tiered tariff reduction for developed countries ranging between 48 per cent on zero or low tariff goods and 73 per cent on high

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<sup>13</sup> Kym Anderson, Will Martin and Ernesto Valenzuela, ‘The Relative Importance of Global Agricultural Subsidies and Market Access’, Paper from the World Bank Project on Agricultural Trade Reform and the Doha Development Agenda, November 2005.

<sup>14</sup> Michael Friis Jensen and Peter Gibbon, ‘Africa and the WTO Doha Round: An Overview’, *Development Policy Review*, Vol. 25, No. 1, 2007, pp. 5-24.

<sup>15</sup> Anwural Hoda and Ashok Gulati, ‘Special and Differential Treatment in Agricultural Negotiations’, in Giovanni Anania, Mary Bohman, Colin Carter and Alex McCalla, eds., *Agricultural Policy Reform and the WTO: Where Are We Heading?* (Northampton, MA: Edward Elgar, 2004), p. 364.

<sup>16</sup> G20 Communiqué, G20 Proposal on Market Access, 12 October 2005. Available at [www.agtradepolicy.org](http://www.agtradepolicy.org). Accessed 4 April 2008.

<sup>17</sup> ‘Chair’s Ag Market Access Paper Sparks Fierce Debate on Tariff Cuts’, *BRIDGES Newsletter*, Vol. 10, No. 21, 14 June 2006.



tariff goods. Within this working text, developing countries were to take on the same schedule but at two thirds of the rate cut.<sup>18</sup>

As the tiered formula went some way to include all products in a meaningful liberalisation process, by the same token special and differential treatment – a centre piece of the Doha agenda – has largely boiled down to creating exceptions to these border commitments. As other options such as providing direct compensation for preference erosion faded during the negotiating process, attention converged around the Special Safeguard Mechanism (SSM) and Special Products (SPs) policy instruments as the means by which to provide this differential treatment to developing countries.<sup>19</sup> The concepts of SSM and SP had their origins in the proposals by the Like Minded Group in 2000 and India in 2001 on a Development/Food Security Box intended to operationalize the provisions for special and differential treatment in agriculture. In essence, these proposals intended to protect strategic products linked to rural, food or livelihood security, and to rehabilitate in different form the Uruguay Round's Special Safeguard, a policy instrument which ultimately found to be inappropriate for developing countries.<sup>20</sup> As it was, the SSM was designed to enable short-term tariff hikes to be automatically invoked in response to import surges, and the commodities designated as SPs would be permitted lower tariff reduction schedules over a longer implementation period as well as exemption from minimum access quota provisions. The main proponents of these SSM and SP instruments evolved into the G33 of import sensitive countries, which, despite certain conflicts over Tropical Products (see below), was supported by the G20 and thus presented a united 'development front' on the issue of differential treatment.<sup>21</sup>

The trouble with opening the door to exceptions in market access commitments, however, was that a stampede quickly ensued of countries keen to have their own favoured products excluded. For example, unwilling to see exceptions monopolised by the developing countries, developed countries insisted that measurements of security should not be the sole determinant of exclusion and that trade concerns were also a legitimate reason for protecting some agricultural products from the full exposure of the final agreement (a quite astounding

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<sup>18</sup> World Trade Organisation, 'Revised Draft Modalities', Committee on Agriculture Special Session, TN/AG/W/4/Rev. 1, 8 February 2008, p. 11.

<sup>19</sup> For a proposal for the compensation clause, see Sheila Page, 'Making Doha a Better Deal for Poor Countries', *Financial Times*, 26 July 2004.

<sup>20</sup> Only countries to undergo tariffication in the Uruguay Round have this option. Of the 22 developing countries this applied to, few have used it, in part because of difficulties reforming domestic legislation to enable the safeguard to be successfully triggered.

<sup>21</sup> As with many of these coalitions in the WTO, the G20 and the G33 have some overlapping members, notably China, Cuba, Guatemala, India, Pakistan and Tanzania.

argument, considering that the WTO is in place essentially to override narrow trade concerns for the sake of greater economic welfare). These were referred to as Sensitive Products (SSPs) and, as laid out in the February 2008 modalities, each developed country would be able to designate between 4 and 6 per cent of tariff lines as 'sensitive' in exchange for opening an expanded TRQ on those same products.<sup>22</sup> Given the fairly steep nature of the tariff reductions associated with the G20 position, the sugar industry in the EU was one group of producers to unanimously promote such an option, finding that, despite its recent reform, it would still be affected by the proposed lowered border protection. As such, the sugar farming and sugar processing unions pushed jointly to designate sugar as both a Sensitive Product and a Special Product, in order to permit a shallower tariff reduction and lengthen the time over which that reduction had to take place.<sup>23</sup> Along with the EU and the US (which also suggested it designate sugar an SSP), the African, Caribbean and Pacific countries also favoured an expansive Sensitive Product allowance, keen to protect the remaining value of their preferences into the EU.

In effect, then, the progressive liberalisation proposed by the G20 was undermined by the adoption of the 'sensitive' policy by the Quad, which, in turn, also exposed latent South-South tensions within the developing countries.<sup>24</sup> Thus it is too simple to suggest that the agricultural negotiations in Doha have been entirely a question of North versus South and that assuming shared interests among developing countries, under the rubric of the G20, is not without its problems. Yet despite these challenges and conflicts, it is fair to say that a deal in agriculture could no longer be presented by the developed countries as a *fait accompli* to the developing countries as it was in the Blair House Accord of 1992. Furthermore, it is evident that the politico-legal machinations of the trade negotiations committees have been increasingly animated, though far from controlled, by the positions of the G20.<sup>25</sup> As Pascal Lamy, Director-General of the WTO has commented:

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<sup>22</sup> The text further stated that 'where developed country members have more than 30 per cent of their tariff lines in the top band, they may increase the number of Sensitive Products to [6] [8] per cent'. See 'Revised Draft Modalities', p. 12.

<sup>23</sup> CIBE and CEFS, 'The Success of EU Sugar Regime Reform is Being Undermined by its External Trade Policy', Joint Position Paper, 19 December 2007. Available at <http://www.comitesucre.org/userfiles/CIBE%20CEFS-CIBE%20PositionPaper%2019th%20December%20full%20version.pdf>. Accessed 22 May 2008.

<sup>24</sup> See Christopher Stevens, Jane Kennan and Mareike Meyn, 'South-South Trade in Special Products', *International Centre for Trade and Sustainable Development Issue Paper*, No. 8, June 2007, pp. 21-23.

<sup>25</sup> Interview with Jonathon Hepburn, Programme Officer for Agriculture at International Centre for Trade and Sustainable Development, interviewed in Geneva, 24 January 2008.

The G20 has encouraged a wider coalition of developing countries to act together within the trading system...The WTO is one of the few places where the geographical and economic changes of the recent past are reflected in changes in the representation around the table.<sup>26</sup>

In short, what the G20 offered was a platform where conflicting interests among developing countries could be subsumed and a middle ground among its poles actively sought. In doing so it did not resolve the tension of who should make what reduction commitments as much as provide a politically viable route through negotiations of them.<sup>27</sup>

### **3. The Limits to the Level Playing Field: Postponing El Dorado**

In their account of decision-making in the WTO, Aileen Kwa and Fatama Jawara suggest that the priorities of the developing countries are held back because flexibilities in the negotiation process and behind the scenes bullying enable developed countries to play 'power politics' in the realist sense and make the organisation the agent of their interests.<sup>28</sup> In this reading, the G20 countries have been seen as a vital counter-weight, given that, short of institutional reform, the only hope for developing countries to resist such pressure is to club together and use their collective strength to stand up to the manoeuvrings of the Quad. This section argues that deeper structural constraints are at work which hamper developing countries in securing a 'development round'. In other words, balancing diplomatic power does not translate into organisational impartiality and the freedom to drive through significant policy change.

As mentioned in Section 1, an established body of research has already addressed this problem with respect to the institutional asymmetries of power evident within the WTO. Once the G20 is put in its proper context – as a coalition confronting a system laden with decades of asymmetric trade regulation and centuries of uneven economic growth, both of which are skewed in favour of developed countries – a different perspective begins to emerge of its agential capabilities. As Rorden Wilkinson has argued, the new power dynamics evident within the Doha Round are in fact 'a perception of adjustment set against the creation of an environment in which the further extension of the asymmetry of opportunity likely'.<sup>29</sup>

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<sup>26</sup> Alan Beattie, 'Troubled Talks Threaten WTO's Credibility', *Financial Times*, 23 January 2007.

<sup>27</sup> Interview with WTO Informant 3, Indian Delegate, 25 January 2008.

<sup>28</sup> Aileen Kwa and Fatoumata Jamara, *Behind the Scenes at the WTO: The Real World of International Trade Negotiations* (New York: Zed Books, 2003).

<sup>29</sup> Rorden Wilkinson, *Crisis and the WTO* (Routledge: London, 2006), p. 149.

In terms of agriculture, this historical analysis of asymmetry is borne out by the bargaining dynamics evident over subsidies and tariffs. When the sector was brought into the GATT after the accession of many developing countries, it did so in accordance with the extensive subsidy programmes of the EU and US. Most developing countries entered the Uruguay Round with minimal agricultural subsidies, as any state support programmes they may have had for agriculture were in the midst of being rolled back by debt and adjustment conditionalities, giving them little to concede on this front. As Tony Weis has written:

The USA and EU argued that they were the ones making the main concessions, pointing especially to their subsidies disciplines, while accusing developing countries of being 'free riders' for getting the competitive benefits of this new discipline while making relatively lighter concessions. So while slower tariff reduction schedules and high tariff ceilings were permitted in the original Agreement on Agriculture it was clear that these would be targeted at future ministerials, with developing countries holding few other bargaining chips, especially after the bilateral policy changes wrought by structural adjustment.<sup>30</sup>

As discussed above, developing countries have since taken on the task of targeting these tariffs and subsidies and pushed the agenda on agricultural negotiations, making demands in the sector that developed countries have found difficult to publicly oppose.<sup>31</sup> What they have been able to oppose, though, is the abrogation of reciprocity by developing countries when it comes to NAMA and services. Again and again, the EU and the US have spoken of 'no movement', 'no give and take', and 'no appreciation of the bargaining process' in the context of wider negotiations, thereby exposing the few high-value bargaining chips that the developing countries still possess.<sup>32</sup> In sum, opportunities for developing countries to attenuate the specific asymmetries in agriculture are bound with, and made contingent upon, the expansion of multilateral regulation in other areas of trade – the benefits of which are largely captured by the developed countries.

The argument here is that developing countries have generally been unable to redress the asymmetry in trade regulation and in effect 'gain a round for free' as reforms in the economic sectors of interest to developing countries (agriculture, textiles and other manufacturers)

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<sup>30</sup> Weis, *The Global Food Economy*, p. 135.

<sup>31</sup> Interview with WTO Informant, Australian Delegate, 1 February 2008.

<sup>32</sup> See Susan Schwab, United States Trade Representative, 'Op-Ed: Still Ready to Talk', *Wall Street Journal*, 11 September 2006; and Peter Mandelson, 'Doha Clock is Ticking', Speech given at the International Trademark Association Committee, Brussels, 11 September 2007.

have been structurally linked to incorporation of reforms of interest to developed countries (NAMA, services, intellectual property, etc.) Recognising this asymmetry, scholars such as S. Javed Maswood have proposed that:

The task for developing countries is not to engineer a step-function change in international economic regimes but to make existing liberal regimes more conducive to their developmental interests by removing the many pockets of illiberal practices and securing recognition for special and differential treatment.<sup>33</sup>

This counter-argument leads on to our contribution to this debate. To suggest that developing countries should pursue greater economic openness where it is advantageous and limit the encroachment of neo-liberalism where it is at its most pernicious overplays the collective ability of developing countries to deliver pro-development agricultural texts. More specifically, it fails to acknowledge, first, the inherent uncertainties in imposing market order that loom over negotiators at the WTO and make the rational decision-maker a somewhat redundant concept, and, second, the persistent renewal of government involvement in agriculture. Together, these unknown outcomes thwart the possibility of focused collective action by developing countries, and, working alongside the structural asymmetries inherited from the past, negate the steady transition of the global trade architecture to one which prioritises the interests of its poorest members.

In imposing market order on agricultural trade, a primary uncertainty to fall on negotiators of developed and developing country alike is the uncertain value of concessions. Choosing the right path to liberalisation is confounded by the fact that delegates and their national governments cannot envisage exactly how much policies will be worth to other states during negotiations and to their own economy after agreement. For developing countries trying to make the WTO more conducive to their interests, this poses the problem of identifying the 'optimal' route by which to secure welfare gains. Robert Wolfe's heuristic opposition between a negotiating dynamic based on incremental time (corresponding to the efficient view of institutions) and one based on conjunctural time (corresponding to the inefficient view) illustrates this point effectively:

In incremental time, analysts think we know what is at stake, whereas conjunctural time is marked by uncertainty about cause and effect relationships... [Thinking in conjunctural time] it

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<sup>33</sup> S. Javed Maswood, *The South in International Economic Regimes: Whose Globalization?* (Basingstoke: Palgrave Macmillan, 2006), p. 50.

is hard, even impossible, for negotiators to know where they are going before they start in this huge diffuse process, one where the goal is never explicit and the means are hard to see.<sup>34</sup>

The ontological premise here is that negotiations are an intersubjective social process in which the means are hard to see because the values of bargaining chips are codified within this process and made mutable over time. Put another way, an inalienable divorce exists between the 'real' economic value of a bargaining chip as a policy tool and its 'use' value as a political concession by virtue of who holds the chip and the context in which it is relinquished. This divorce is frequently exploited for leverage, as when the EU treated its offer to relinquish use of its barely used special safeguards as a major concession. More endemic, though, is the unknown 'policy exchange rate'. Delegates are continually confronted by the unenviable task of asking "how much is a tariff cut worth as a domestic subsidy reduction, or an expanded SPs allowance, or a change to rules of origin status?" Economic studies can offer indications of trade flows given specific changes in instruments, but, as the quantity of concessions increases, expected outcomes become too complex to model with confidence and parity impossible to find. This uncertainty is exacerbated by the unknown efficacy of given policies. For example, the utility of the proposed SSM remains clouded by the fact that it is extremely hard to adjudicate between import surges caused by short-term price depressions and those caused by structural price decline or demand-side changes.<sup>35</sup> If it becomes possible to dispute the legitimacy of SSM invocation and have the tariff hike blocked – as happened with the special safeguard used by the US against Australian lamb – then the efficacy of the instrument to protect domestic producers against surges could be severely weakened.

Under such circumstances, negotiators have to proceed, in Wolfe's metaphor, as if 'crossing the river by feeling the stones', learning from each other rather than pursuing exogenously given interests and, over time, slowly constituting the elements out of which a bargain can be constructed.<sup>36</sup> To reiterate, the importance of this for our argument is that, even given an improved negotiating weight of developing countries in the WTO, there is no pre-defined optimal route on which they could embark to make the fullest use of this power. In the negotiating forum, decisions are essentially removed from economic theory as political 'feel'

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<sup>34</sup> Robert Wolfe, 'Crossing the River by Feeling the Stones: Where the WTO is going after Seattle, Doha and Cancún', *Review of International Political Economy*, Vol. 11, No. 3, 2004, p. 577.

<sup>35</sup> ICTSD, 'Special Products and the Safeguard Mechanism: Strategic Options for Developing Countries', International Centre for Trade and Sustainable Development, Issue Paper No. 6, December 2005, p. 42.

<sup>36</sup> Wolfe, 'Crossing the River by Feeling the Stones', p. 578.

usurps welfare gains in assessing the best course of action, posing an intractable barrier to the unambiguous and instantaneous realisation of a pro-poor round.

Nevertheless, it is possible to argue that, given sufficient time and ambition, agricultural liberalisation will still be achieved as WTO member states slowly relinquish their price and income support policies over subsequent rounds. Yet this belief that a sparse and level playing field will ultimately come into being ignores the persistent renewal of government involvement in agriculture as instruments evolve and new industries arise. Linda Weiss, for example, has argued that while certain policy instruments have been made anachronistic under the WTO, the state has maintained its economic influence by developing strategic and collaborative 'horizontal' policies.<sup>37</sup> In the agricultural sector, this is evident in the range of policies permitted under the Green Box (which according to an UNCTAD report *are* trade distorting), the emergence of new products and instruments which have created another wave of essentially protectionist policies (such as ethanol tariffs or geographical indicators) and the protracted survival of supposed temporary instruments such as those contained within the Blue Box.<sup>38</sup> In short, the argument being made is that the WTO can only bring about a level playing field if everyone agrees on what this is, and, quite clearly, different political visions exist about how support should be categorised within the organisation's framework.

Considering sugar, three examples serve to illustrate these differences as to what supports should and should not be included in the WTO's primary schedule of cuts. First, the debate over Tropical Products revealed a split between developing countries based on an insistence that not all commodities are the same, and by virtue of the contribution of some of these to development goals, that exceptions should be made to the principle of reciprocity that binds all tariff lines into progressive liberalisation through mutual concession giving. Second, it is notable that while Brazil, Australia and Thailand managed to gain victory over the EU's export subsidy regime, Japan does not even report its sugar trading monopoly agent or government controls of import volumes to the WTO, despite the fact that the Japanese violation is more distorting than the EU's subsidised export system. And, third, the liberalisation of the nascent ethanol trade in the Doha Round has been fudged by both the United States' calculation of its duty support and the omission of the commodity, at the

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<sup>37</sup> Linda Weiss, 'Global Governance, National Strategies: How Industrialized States Make Room to Move under the WTO', *Review of International Political Economy*, Vol. 12, No. 5, 2005, 723-749.

<sup>38</sup> UNCTAD India, *Green Box Subsidies: A Theoretical and Empirical Assessment* (New Delhi: UNCTAD India, 2007).

behest of the US, France and Germany, from the Environmental Goods and Services list that was scheduled for faster liberalisation.<sup>39</sup>

It should be stressed that this assessment does not suppose a conspiracy on the part of developed countries to maintain competitive advantage (many developing countries use permissible and/or un-notified state supports also), but more a recognition that it is too simple to consider agricultural negotiations as progressively exhausting interference as governments relinquish their bargaining chips over time. This suggests that there is no perfect market at which to aim – no El Dorado – that would foreclose public authority from agricultural production and enable those farmers in weaker and poorer states to compete more favourably with those in the developed world. The danger in ignoring this at the policy making level is that, as the form of state-market authority morphs over time, predicted gains will wax and wane, leaving negotiators to reminisce on what they once thought they had secured in negotiations, the Uruguay Round being the obvious example.<sup>40</sup>

In sum, within the realm of the WTO, the problem for developing countries as a whole cannot be equated with one of appropriate ambition in the Doha Round. Rather, the problem is that visions of world agricultural trade typically measure the costs of departing from an ideal of liberalisation and, in doing so, reify and make the real the distinctly unreal possibility of constructing a pristine international market.<sup>41</sup>

#### **4. The Benefits of Trade in Brazil: Dismissing El Dorado**

One response to this sceptical note on progressive liberalisation could be that, while the ideal may not be attained, by approximating it significant gains will still be yielded. To return to our metaphor of El Dorado, while the search may be futile, the journey may still bear reward. This much will not be denied here. Liberalisation can be expected to create economic gains for some countries as production is reallocated to where it can be undertaken at lower monetary cost. What will be challenged, though, is the argument that this economic gain can be unequivocally equated with development; something that has

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<sup>39</sup> Interview with WTO Informant 2, Brazilian Delegate, 23 January 2008.

<sup>40</sup> Interview with WTO Informant 5, Thai Delegate, 28 January 2008.

<sup>41</sup> For instance, Anderson *et al.* state as their aim: 'To analyse empirically the market, trade and welfare consequences of such scenarios relative to two benchmarks (the baseline and a world free of distortions to goods trade)'. Kym Anderson, Will Martin and Dominique van der Mensbrugghe, 'Market and Welfare Implications of Doha Reform Scenarios', in Kym Anderson and Will Martin, eds., *Agricultural Trade Reform and the Doha Development Agenda* (Washington DC: Palgrave Macmillan, 2006), p. 333.



been assumed throughout the previous discussion of how developing countries can prosper through the WTO.

It is generally acknowledged that, to the extent export gains result from liberalisation in agriculture, these will be captured by the big trading nations of the Cairns Group at the expense of the developed countries reliant upon tariff protection and those developing countries which are simply higher cost producers.<sup>42</sup> The expected result is that global supply becomes less diverse and a handful of countries begin to dominate certain commodity markets. The interesting thing about sugar in this respect is that, since the inauguration of the WTO, while wholesale liberalisation has been averted this intended effect has come about nonetheless. As UNCTAD have noted, since 1995, while the structure of the world sugar market on the import side has remained fairly constant at around 0.115 (with 1 representing a perfect monopoly and 0 representing an equal distribution of market share), on the export side there has been significant structural change.<sup>43</sup> In 1995, the concentration index stood at 0.197 but by 2005 it had grown to 0.224, essentially due to Brazilian exports, which as Figure 1 reveals, increased over 500% during that period.

**Figure 1: International Sugar Trade Profile, 1994-2005**

Largest Exporters, million tonnes			Largest Importers, million tonnes		
1994	2000	2005	1994	2000	2005
Australia 4.52	Brazil 6.50	Brazil 18.40	India 2.63	Russia 5.23	Russia 3.57
Brazil 3.60	EU 6.20	EU 6.66	Russia 1.96	EU 1.90	EU 2.42
EU 3.26	Thailand 4.34	Australia 4.24	Japan 1.70	Japan 1.61	USA 2.07
Cuba 3.19	Australia 3.77	Thailand 3.31	China 1.24	Indonesia 1.56	Indonesia 2.00

Source: International Sugar Organisation, *Statistical Bulletin*, Vol. 60, No. 11, 2001, p. iii and Vol. 65, No. 12, 2006, p. iii.

The dominance of Brazil on the world market came not through a decline in protectionism but because of expanding demand for raw sugar by refineries in the Middle East and falling output from the traditional heavyweight exporter Cuba and since 2007, the EU too. As such

<sup>42</sup> Antoine Bouët, Jean-Christophe Bureau, Yvan Decreux and Sébastien Jean, 'Multilateral Agricultural Liberalisation: The Contrasting Fortunes of Developing Countries in the Doha Round', *The World Economy*, Vol. 28, No. 9, pp. 1329-1354.

<sup>43</sup> UNCTAD, *Handbook of Statistics, 2006-07* (Geneva: UNCTAD, 2007), pp. 185-191.

Brazil provides a suitable 'laboratory' in which to assess development gains *ex post* liberalisation. If the link between a G20-inspired agriculture text and a pro-development outcome can be severed *even in a country assumed to be a prime beneficiary of such liberalisation*, then the validity of the project must be brought into question.

The intended effects of this process are to increase output, employment and wealth generation in sectors such as sugar/ethanol in which developing countries have a comparative advantage. While this has certainly happened in this case, the outcomes stack up in a somewhat ambivalent fashion. Growth in sugar and ethanol production has not translated into an unequivocal boon for development, not least because of its increasing capital intensity and its ensuing complex relationship to land and labour. In striking parallel to the unfolding of the sugar industry in Florida, stricter environmental legislation and capitalist imperatives in Brazil – or more specifically, in São Paulo and its surrounding area – have overseen a large landowning class with vertically integrated operations marginalise intensive labour production, buy-out smaller cattle ranchers, and weaken peasant farming.<sup>44</sup> As a result, there are fewer opportunities for people to earn the wages or access land to support themselves, and growing rural dependence on the sugar elites.

The primary reason for this is mechanisation, which has been encouraged by three dynamics. First, it is simply more cost effective, as harvesters are estimated to reduce employment expenditure by half, and where once the barrier of high capital outlay stood in the way, now the ready finance available in the industry makes such investments manageable.<sup>45</sup> Second, manual labour has become more impractical because of changing regulation. When cutting cane by hand, to make the stalks weaker and to rid the area of snakes, the fields are usually burned beforehand. Responding to environmental and health concerns (field burnings are closely linked to local respiratory problems), the Brazilian government has encouraged this to be phased out. In São Paulo, cane burning has gradually decreased from 82% of the harvested area in 1997 to 63 % in 2004 and harvesting done by machine has risen accordingly.<sup>46</sup> And third, some employers have responded to the successes of the labour movement by seeking to substitute labour. As the manager of the

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<sup>44</sup> Bernardo Mançano Fernandes & Eleinai Constantino Gonçalves, 'The Politics of Agrofuel in Brazil: Paradigms and Territorial Dispute', *Journal of Peasant Studies*, Vol. 37, No. 3, 2010, forthcoming.

<sup>45</sup> As of September 2007, \$17 billion worth of investment was planned for the industry. See Jonathon Wheatley, 'Rivals Fuelled by One Dream', *Financial Times*, 26 September 2007.

<sup>46</sup> Edward Smeets, Martin Junginger, Andre Faaij, Arnaldo Walter and Paulo Dolzan, 'Sustainability of Brazilian Bio-Ethanol', Commissioned Study by Netherlands Agency for Sustainable Development and Innovation, Report NWS-E-2006-110, Utrecht, August 2006, p. 48.

Usina da Pedra sugar mill has put it, “the great impulse for mechanisation was the strikes, labour indemnities, the whole social problem of working with sugarcane cutters”.<sup>47</sup> This falling labour demand per hectare has been offset *to a degree* simply by farming more hectares. However, it has not been enough to tip the scales. By way of illustration, between 1993 and 2003, the area of cane harvested grew from 3.4m hectares to 4.6m hectares, while employment on the farm fell from 617,000 to 449,000.<sup>48</sup> According to figures produced by the sugar industry union UNICA, between 2010 and 2021 around 114,000 net jobs are expected to be lost in São Paulo alone.<sup>49</sup>

The second problem is that the expansion of sugarcane production in Brazil has exacerbated problems linked to land access for peasants who reside on the fringes of the industry. The issue of land reform in Brazil has a long and contested history that we do not have time to explore in full detail here, suffice to say that opportunities for peasants to gain legal access to existing land has been limited under the Brazilian agrarian reform programme. This programme has facilitated the sale only of small- and medium-sized farms either under-utilized or abandoned, thereby leaving the redistribution of the *latifundios* to one side.<sup>50</sup> The growth of the industry has both put land prices at a premium, thus pricing peasants and small-scale farmers (who employ proportionately more labour) out the market and making the purchase and/or sequestration of land increasingly volatile.<sup>51</sup>

It is in this environment that the Movimento dos Trabalhadores Rurais Sem Terra (MST) – translated as the Landless Rural Workers Movement – has arisen as a vehicle of both theoretical critique and practical action.<sup>52</sup> In the face of expansion in Brazilian sugar and soy production, MST have become increasingly radical, switching its target from the occupation

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<sup>47</sup> Sérgio Luís dos Santos, quoted in Cliff Welch, ‘Globalization and the Transformation of Work in Rural Brazil: Agribusiness, Rural Labour Unions, and Peasant Mobilization’, *International Labor and Working-Class History*, No. 70, 2006, p. 46.

<sup>48</sup> Area figure from Troy Schmitz, James Searle and Peter Buzzanell, ‘Brazil’s Domination of the World Sugar Market’, in Andrew Schmitz, Thomas Spreen, William Messina and Charles Moss, eds., *Sugar and Related Sweetener Markets: International Perspectives* (New York: CABI Publishing, 2002), p. 125; employment figure from Smeets *et al.*, ‘Sustainability of Brazilian Bio-Ethanol’, p. 57.

<sup>49</sup> Rede Social, ‘Direitos Humanos e a Indústria da Cana’ (São Paulo: Rede Social, 2008), p. 10.

<sup>50</sup> Saturnino Borrás Jr., ‘Questioning Market-Led Agrarian Reform’, *Journal of Agrarian Change*, Vol. 3, No. 3, 2003.

<sup>51</sup> The average prices of cane land in São Paulo state more than doubled from \$1,152 per hectare in 2003 to \$2,705 per hectare in 2008, with some of the prime sites even quadrupling in value. AgraFNP, *Biofuels Brazil*, No. 37, 21 October 2008, p. 14.

<sup>52</sup> Wendy Wolford, ‘Producing Community: The MST and the Land Reform Settlements in Brazil’, *Journal of Agrarian Change*, Vol. 3, No. 4, 2003, p. 505.

of unproductive land to the occupation of land used to produce commercial crops.<sup>53</sup> By way of example, in 2007, MST peasants invaded the Cevasa ethanol mill in São Paulo (owned in part by Cargill) to disrupt production and a month later invaded 6,000 hectares of land, also in São Paulo, torching 30 tonnes of unplanted sugarcane in the process.<sup>54</sup> While the Brazilian state has claimed that it is able to support both the commercial and 'food sovereignty' models of farming, it has only been by re-settling peasants in the less populated Amazonian region and satiating immediate demands for reform through its expanding malnutrition programme.<sup>55</sup>

This is not say that the growth of the sugar/ethanol industry, which liberalisation would accelerate further, has been without its benefits. Most notably, while there may be fewer jobs in the field (and fewer overall), the jobs that remain are more formal, safer, and, specifically for those in the factory, increasingly well paid.<sup>56</sup> This change in employment conditions is linked to the knowledge needed to run a modern sugar/ethanol industry and the relatively tight skilled-labour markets with which it is confronted. As a result, the industry has had to offer greater incentives have been offered to attract and retain employees within the industry. The dynamic effect has been that the share of skilled workers in the sugar growing and processing sectors has grown rapidly relative to the rest of the economy, with local universities now even running MBA classes specifically targeted at the industry.<sup>57</sup> As a result, it has been the more educated workers that have captured the biggest percentage of wage increases as the factory owners and independent growers try and attract the human capital necessary to enhance the rate of return on their physical capital. This trend, it should be noted, reinforces racial and gender divisions within the country as those who possess such qualifications tend to be white, urban males.<sup>58</sup>

Nevertheless, it remains the case that the way sugar is produced in Brazil – indeed, the way most agricultural commodities are – is bifurcating the intended beneficiaries of growth. The model of growth is one that discounts the poor from employment and, moreover, channels

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<sup>53</sup> Sue Branford and Jan Rocha, *Cutting the Wire: The Story of the Landless Movement in Brazil* (London: Latin American Bureau, 2002), p. 10.

<sup>54</sup> Reuters, 'Brazil Peasants Storm Farms, Torch Sugar Plants', 13 April 2007.

<sup>55</sup> Ben Richardson, 'Exclusive Engine of Growth: The Development Model of Brazilian Sugarcane', *Ethical Sugar Discussion Paper*, January 2009.

<sup>56</sup> In 2002, the amount of formal jobs was counted as 368,000 in cane farming, 302,000 in sugar production, and 95,000 in ethanol distillation, each of which had risen considerably since even two years prior. See Smeets *et al.*, 'Sustainability of Brazilian Bio-Ethanol', p. 57.

<sup>57</sup> Ekaterina Krivonos and Marcelo Olarreaga, 'Sugar Prices, Labour Income, and Poverty in Brazil', *World Bank Policy Research Paper*, No. 3874, April 2006, pp. 8-9.

<sup>58</sup> *Ibid.*, p. 4.

revenues to historically wealthy landowner-industrialists, thereby impeding a natural dispersal of wealth creation. Second, various tax incentives are offered to the sugarcane industry, thus denying the government greater tax receipts to (re)distribute as welfare payments.<sup>59</sup> Further to these two points, it is evident that the institutional make-up of the state itself is such that it also lacks the ability to challenge and change this relationship. Brazil is the only country in the world with two agricultural ministries, but the one that deals with agrarian reform is notably weaker than the one that deals with agricultural trade and commerce.<sup>60</sup> It is these constraints over redistribution, coupled with the ascendant mode of production itself, which makes the sugarcane industry an exclusive engine of growth and which provides us with a third reason to cast doubt on the future of 'pro-development' WTO outcomes.

## 5. Conclusion

We don't know where we're going, but we know where we've been...the future is certain, give us time to work it out – Talking Heads, 'Road to Nowhere'.

Despite the small share of agriculture as a proportion of global GDP and trade, the sector continues to assume a status of supreme significance in multilateral negotiations. As pointed out in this paper, a central debate animating this status has been the entitlement of developing countries to adhere to different rules in order to bring about a historical corrective to erstwhile patterns of international trade.<sup>61</sup> In an environment where this tension remains unresolved (and arguably will remain so), the prevailing norm has been to carry on as normal, or, as one of the key guiding metaphors of the WTO has it, 'keep riding the bicycle'. This suggests that, despite any wobbles states may face, they have to keep riding and strive to liberalise their economies else fall off and descend into protectionism and recession. The problem we have raised here is that its protagonists are not fully cognisant of *where they are riding to*. If the path that WTO member states have found themselves negotiating along is paved with trouble, or even just bordered by doubt, then the journey needs to be re-thought. Nevertheless, many statesmen, commentators and NGOs continue to assume that as long as developing countries can evade political 'arm twisting' in the WTO, then a regulatory

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<sup>59</sup> For example, in the 1<sup>st</sup> Quarter of 2007 Ernst and Young placed Brazil at the top of their 'Ethanol Attractiveness Index', based on its favourable tax regime for investors. Ernst and Young, 'Biofuels Country Attractiveness Indices', Renewable Energy Group, Q1 2007, p. 4.

<sup>60</sup> Elisa Reis, 'Brazil: One Hundred Years of the Agrarian Question', *International Social Science Journal*, Vol. 50, No. 157, 1998, pp. 419-432.

<sup>61</sup> Jean-Christophe Graz, 'Transnational Mercantilism and the Emergent Global Trading Order', *Review of International Political Economy*, Vol. 11, No. 3, 2004, p. 611.

environment can be built that will stimulate development in these parts of the world.<sup>62</sup> The promise of a market 'El Dorado' persists in the imagination.

We have sounded three sceptical notes on this claim. First, there is no known route through the WTO negotiating process out of which a 'sure fire' pro-developing country text could emerge, given both the differences between developing countries, notably on preference erosion, and the future uncertainties looming over intended outcomes. Second, the notion that developing countries will benefit sometime in the future as playing fields are successively levelled downward ignores the constant renewal of state-support in agriculture, as governments find loopholes in, create policies compatible with, or exclude commodities from, WTO regulation. Third, to approve unhesitatingly a regulatory environment inspired by developing countries is to conflate the choices of those countries in greatest need of development with development itself. As the case of Brazil showed, rural development has bifurcated under the export-led agricultural model; a model that the country's elites wish to push even further through greater liberalisation. The conclusion to draw from all of this is that, while the neo-liberal rules entrenched in the WTO gain increasing momentum, the logic that unfailingly links the emergence of these to development contains a chunk of ideological faith and host of unquestioned assumptions. While not denying the probability that *some* fractions of capital and labour in *some* developing countries will benefit from the ongoing removal of government policies in agriculture, it is argued here that these initial benefits and their intended knock-on effects (multiplier effect, redistributive taxation, etc.) are contingent and circumscribed, and that, as a consequence, the pursuit of liberalisation may represent a developmental dead end. In short, the purpose at the heart of the multilateral liberalisation vision is both under-theorised and over-hyped.

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<sup>62</sup> See Arvind Panagariya, 'Developing Countries at Doha: A Political Economy Analysis', *The World Economy*, Vol. 25, No. 9, 2002, pp. 1205-1233; Martin Khor, 'The WTO, the Post-Doha Agenda and the Future Trade System: A Development Perspective', Paper prepared for the Asian Development Bank, May 2002; and Oxfam, 'Show of Unity and Strength by G20 Countries', Oxfam Press Release, 21 March 2005.

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